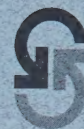


AR47



computel 

Annual Report



To the Shareholders

Computel's fourth fiscal year which ended August 31, 1971, resulted in a loss of \$1,283,410; extraordinary items reduced the loss to \$963,851 on revenues of \$3,571,885 compared with a net loss of \$849,490 on revenues of \$3,086,949 a year ago. The extraordinary items comprise an income of \$445,042, which arose when the Company purchased some of its 6% convertible debentures, and an expense of \$125,483, representing the write-off of certain fixed assets applicable to the relocation of the Toronto branch offices.

Of the loss, \$775,523 was incurred in the first six months of the period; diminishing losses of \$280,744 and \$227,143 in the third and fourth quarters respectively, reflect Computel's continuing improvement.

A decline in the demand for 1108 computer time in Toronto is responsible for the poor results of the first six months; during that period two 1108 computers, one in Toronto, the other in Ottawa, were both providing equivalent service; the uneconomic operation of the machine in Toronto was stopped as of January 1st, 1971. Computel's high standard of service in Toronto has been maintained by the continued presence of its marketing staff completely supported by technical consultants, terminal operations and maintenance personnel. Clients working on Computel's premises

now enjoy the convenience of the new downtown office and the easy access to both the UNIVAC 1108 and the IBM 360/65 through high-speed terminals.

In Montreal, Computel has established a new facility in Place du Canada which includes a high-speed terminal providing rapid service to both the UNIVAC 1108 and the IBM 360/65. Marketing and Technical Support personnel provide a complete range of services to both clients with their own terminals, and those working on Computel's premises.

January 1st, 1971, Computel acquired Information Systems Design (ISD) located in Oakland, California. ISD, a firm of 25 people, provides computer services from a UNIVAC 1108 to clients in the San Francisco Bay Area and throughout northern California. Prior to the acquisition, ISD had rented its 1108 computer; ISD now leases the 1108 made available from Toronto through Computel Leasing Ltd. A strong demand for 1108 time exists in California but competition is keen. ISD maintains a good competitive record and is highly respected for the quality of its service; despite this revenues were weak from January through July; since August, the trend has been one of continuous but modest increases.

During the months from January to April Computel purchased for cancellation \$1,000,000 par value of its 6% convertible debentures at a cost of approximately \$500,000. This

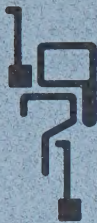
program reduced the Company's long term debt, lowered the interest payments, and has resulted in a reduction of the Company's Deficit. The funds acquired for this program are secured by a chattel mortgage on the Company's IBM 360/65 computer. Repayment of principal is not required until one year following the retirement in full of the Company's 9% 1st Mortgage sinking fund bonds.

The past year has been characterized by an effort to strengthen the company by increasing its efficiency, utilizing a greater part of the capacity of the company's computers and improving its sales record: costs have been reduced; the determination and dedication of the staff have ensured the maintenance of the highest standard of service to Computel's clients; the Toronto 1108 has been relocated to a new and promising market; new long term contracts have been signed and new equipment has been added to extend the capabilities of the computers in Ottawa.

The promise of the computer service industry remains; Computel stands equal to the opportunity.

Robert T. Horwood
President

December 9, 1971



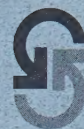
Consolidated Balance Sheet — August 31, 1971

	1971	1970
Assets		
Current:		
Cash	\$ 64,649	\$ 38,470
Short-term investments (at cost which approximates market)	350,000	710,000
Accounts receivable	664,866	654,952
Prepaid expenses	64,031	28,665
	<u>1,143,546</u>	<u>1,432,087</u>
Fixed, at cost:		
Computer and ancillary equipment (note 5)	9,688,803	9,330,063
Furniture and fixtures	193,511	153,392
Leasehold improvements	230,197	233,200
	<u>10,112,511</u>	<u>9,716,655</u>
Less: accumulated depreciation	2,770,348	1,684,930
	<u>7,342,163</u>	<u>8,031,725</u>
Other, at cost:		
Bond, debenture and share issue expenses (less amortization)	245,146	317,994
Incorporation expense	5,772	5,772
	<u>250,918</u>	<u>323,766</u>
Goodwill, at cost less amortization (note 2)	77,001	
	<u>\$8,813,628</u>	<u>\$ 9,787,578</u>

On behalf of the Board:

Robert T. Horwood Director

Ronald T. Lane Director



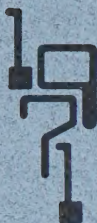
computel systems ltd.

(Incorporated under the laws of Canada)
and its wholly-owned subsidiaries

STATEMENT 1

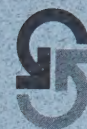
	1971	1970
Liabilities and Shareholders' Equity		
Current:		
Accounts payable and accrued charges	\$ 431,767	\$ 348,357
Accrued interest payable	127,372	148,345
Taxes payable	35,407	38,037
Current portion of long-term debt	402,777	271,826
	997,323	806,565
Long-term debt (note 3)	5,867,263	6,112,346
Shareholders' equity:		
Share capital (note 4)—		
Authorized:		
1,000,000 common shares without nominal or par value		
Issued:		
598,078 shares (588,708 in 1970)	4,298,056	4,253,830
Deficit (statement 2)	(2,349,014)	(1,385,163)
	1,949,042	2,868,667
	<u>\$8,813,628</u>	<u>\$9,787,578</u>

(See accompanying notes to the consolidated financial statements)

**Consolidated Statement of Income and Deficit
for the year ended August 31, 1971**

	1971	1970
Income:		
Computer time and related charges	\$3,436,537	\$2,908,442
Leasing contract revenue	101,424	106,141
Investment income	33,924	72,366
	<u>3,571,885</u>	<u>3,086,949</u>
Expenses, including depreciation:		
Operation costs	3,356,444	2,854,018
Administrative and systems expenses	1,035,459	647,264
Interest on long-term debt	463,392	435,157
	<u>4,855,295</u>	<u>3,936,439</u>
Loss for the year before extraordinary items	1,283,410	849,490
Extraordinary items:		
Gain on retirement of debentures having a par value of \$1,000,000	(445,042)	
Write-off of fixed assets applicable to Toronto branch operations	125,483	
Net Loss for the year	963,851	849,490
Deficit, beginning of year	1,385,163	535,673
Deficit, end of year	<u>\$2,349,014</u>	<u>\$1,385,163</u>

(See accompanying notes to the consolidated financial statements)



computel systems ltd.

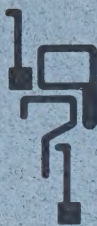
and its wholly-owned subsidiaries

STATEMENT 3

Consolidated Statement of Source and Application of Funds for the year ended August 31, 1971

	1971	1970
Source of funds:		
Shares issued	\$ 44,226	\$ 23,833
Issues of long-term debt	1,130,000	456,929
	<u>1,174,226</u>	<u>480,762</u>
Application of funds:		
To operations—		
Loss for the period	963,851	849,490
Depreciation	(1,095,889)	(1,005,181)
Amortization of bond, debenture and share issue expense	(24,939)	(27,783)
Amortization of goodwill	(11,850)	
Write-off of fixed assets	(149,538)	
Gain on retirement of debentures	445,042	
	<u>126,677</u>	<u>(183,474)</u>
Purchase of fixed assets	364,842	697,683
Retirement of long-term debt	562,361	36,757
Purchase of shares in subsidiary	\$300,000	
Less: working capital acquired	96,970	
	<u>203,030</u>	
Consisting of:		
Fixed assets	\$191,021	
Long-term debt	(76,842)	
Goodwill	88,851	
	<u>\$203,030</u>	
Current portion of long-term debt	392,847	271,826
Increase in other assets	3,768	6,281
	<u>1,653,525</u>	<u>829,073</u>
Decrease in working capital during the year	<u>\$ 479,299</u>	<u>\$ 348,311</u>

(See accompanying notes to the consolidated financial statements)



Notes to the Consolidated Financial Statements August 31, 1971

1. Principles of Consolidation

The consolidated financial statements include the accounts of Computel Leasing Ltd., Ottawa, and Information Systems Design, Oakland, California, the Company's wholly-owned subsidiaries. The income and expenses of Information Systems Design are included from January 1, 1971, the date of acquisition.

2. Acquisition of Information Systems Design

On January 1, 1971, the Company acquired 100% of the outstanding shares of Information Systems Design, a California Corporation, for a consideration of a \$300,000 Promissory Note payable over four years plus certain computer time to be provided over a three-year period. This transaction was accounted for as a purchase.

The book value of assets acquired other than goodwill amounted to approximately \$464,000, which amount is equal to their fair market value. Liabilities amounted to \$253,000. The cost of goodwill amounting to \$89,000 is being amortized over five years commencing January 1, 1971.

Since acquisition, revenues of the California subsidiary have been sufficient to meet cash operating expenditures, but they are not yet sufficient to more than partly absorb

the amortization of the capital costs attributable to that operation. The Company is presently anticipating a gradual improvement in the revenue levels for the California operation over future periods.

3. Long-Term Debt

	1971	1970
Total long-term debt	\$6,270,040	\$6,384,172
Less current portion due within one year	402,777	271,826
	<u>\$5,867,263</u>	<u>\$6,112,346</u>

Bonds—\$771,000

Under the terms of the Trust Deed securing the 9% first mortgage sinking fund bonds, annual sinking fund instalments of \$193,000 are required from January 15, 1972 to January 15, 1975. In addition, the company may, at its option, redeem bonds at any time prior to maturity at prices ranging from 104.5% of the principal amount if redeemed on or before January 15, 1972, to 100% of the principal amount if redeemed after January 15, 1974.

Debentures—\$4,000,000

Under the terms of the Trust Indenture securing the 6% convertible subordinated debentures, the Company is required to retire through the operation of a sinking fund, \$500,000 principal amount of debentures in each of the years 1980 to 1987 inclusive. These debentures are convertible into common shares at a conversion rate of 28 shares for each \$1,000 principal amount of debentures at any time prior to September 15, 1978. In addition, the Trust Indenture provides that the Company may at its option

redeem debentures at any time prior to maturity at prices ranging from 105.1% of the principal amount if redeemed on or before September 14, 1972, to 100% of the principal amount if redeemed after September 14, 1987.

The Company may not pay any cash dividends on its common shares until all of the first mortgage bonds and the convertible subordinated debentures have been retired.

During the year the Company purchased \$1,000,000 of debentures on the open market for a cash consideration of \$503,281.

Other long-term debt—

10¼% chattel mortgage on the IBM 360/65 equipment due January 15, 1976, with interest payable semi-annually.

\$500,000

9½% promissory note repayable in monthly instalments of \$2,000 principal and interest and a final payment on May 1, 1973 of \$58,440.

\$ 86,772

5% promissory note payable in semi-annual instalments over four years. The note may be prepaid by Computel at any time and has a convertible feature which cannot be exercised during the first two years except to a limited extent. The conversion price is \$5.00 (U.S.) per share.

\$275,000

Purchase contracts outstanding are payable as follows:

1. 42 monthly instalments of principal and interest of \$9,550 at 9.3% per annum. \$341,347

2. 52 monthly instalments of principal and interest of \$6,954 (U.S.) at 10% per annum.
- \$296,921

Principal repayment for the next five years of long term debt outstanding as at August 31, 1971 is as follows:

1972	402,777
1973	496,889
1974	467,653
1975	375,358
1976	527,364

4. Share Capital

Under the terms of an employee stock option plan, options have been granted to certain employees of the company to purchase in the aggregate 15,100 shares at \$10.00 per share prior to March 16, 1975.

A total of 167,100 shares have been reserved for the conversion of the 6% convertible subordinated debentures, the 5% promissory note and employee stock options.

On December 31, 1970, 9,370 common shares of the capital stock of the Company were issued to employees for cash of \$44,226.

5. Computer and Ancillary Equipment

The Company owns three major computer systems and other computer equipment as follows:

	Cost	Accumulated Depreciation	Net Book Value
Ottawa 1108	\$3,362,045	\$1,053,306	\$2,308,739
Ottawa 360/65	2,611,820	681,698	1,930,122
California 1108	2,478,115	557,879	1,920,536
Other equipment	1,236,823	316,780	920,043
	<u>\$9,688,803</u>	<u>\$2,609,363</u>	<u>\$7,079,440</u>

Depreciation of computer and ancillary equipment has been provided on the basis of an eight-year life with provision for a 15% residual or salvage value.

6. Commitments

The Company occupies leased premises under agreements of one and two years' duration. In addition, the Company leases equipment and has contracted for prime shift maintenance services for its computers. The annual rates for these charges are:

	1971	1970
Premises rentals	\$ 70,000	\$143,000
Equipment rentals	829,000	269,000
Maintenance charges	314,000	257,000

The Company has entered into various agreements for equipment rentals. The agreement with the major lessor states that the lease agreements can be cancelled by the Company following one month's written notice. The other leases are for periods up to one year after which time they may be cancelled subject to no more than three months' written notice.

7. Statutory Information

The Company has nine directors and five officers, four of whom are directors. Remuneration paid during the year to the officers amounted to \$104,000 (1970—\$117,000). No remuneration was paid to directors as such.

8. Legal Action

Information Systems Design (ISD) has filed a complaint against a competitor and certain individuals seeking injunctive relief, actual damages according to proof and punitive damages in the amount of \$6,000,000.

The complaint alleges that the competitor, through its employees, committed the torts of theft of trade secrets and confidential information, interference with advantageous business relations and unfair competition. A cross complaint filed by the competitor alleges that ISD committed the torts of abuse of process, unfair competition and defamation, seeks an injunction, actual damages according to proof and punitive damages in the amount of \$500,000. Counsel for ISD believes the competitor's cross complaint is without merit and that ISD will prevail on the merits in its action against its competitor.

It is not possible at this time to determine the ultimate outcome of these actions and, therefore, no amounts other than legal expenses have been reflected in the financial statements.

9. Loss Carry-Forward

The Company has written depreciation in the accounts in amounts greater than capital cost allowances claimed for tax purposes. The difference, together with the loss carry-forward, is available to reduce taxes payable in the future.

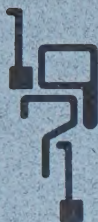
10. Loss Per Share

The net loss per share calculated on the weighted average of the number of shares outstanding during the year is \$1.62 (1970—\$1.46). The loss per share before extraordinary items is \$2.15 (1970—\$1.46).



computel systems ltd.

and its wholly-owned subsidiaries



Auditors' Report

To the Shareholders of Computel Systems Ltd.:

We have examined the consolidated balance sheet of Computel Systems Ltd. as at August 31, 1971 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ottawa, Canada,
December 9, 1971.

Clarkson, Gordon & Co
Chartered Accountants

Directors

✓ Frederick B. Brooks-Hill
✓ George R. Cogar
✓ Christopher G. Fleming
✓ Robert C. Heilig
✓ Robert T. Horwood
✓ Ronald T. Lane
✓ Charles E. O'Connor
✓ Robert N. Steiner
✓ Andrew M. Wyszowski

Officers

Chairman of the Board
George R. Cogar
President & Chief Executive Officer
Robert T. Horwood
Executive Vice-President &
General Manager
Ronald T. Lane
Vice-President, Systems
Andrew M. Wyszowski
Secretary
Robert A. Skene

Auditors

Clarkson, Gordon & Co.

Registrar & Transfer Agent

Canada Permanent Trust Company

Listing

Toronto Stock Exchange

Offices and Principal Equipment

1200 St. Laurent Boulevard, Ottawa
222 Laurier Avenue West, Ottawa
100 University Avenue, Suite 1001, Toronto
Place du Canada, Suite 1210, Montreal
7817 Oakport Street, Oakland, California

IBM 360/65 and Executive Offices
UNIVAC 1108
Terminal/Marketing
Terminal/Marketing
UNIVAC 1108

